CORPORATE SOCIAL RESPONSIBILITY AND FIRM PERFORMANCE IN A DEVELOPING NATION: IS THERE ANY LINKAGE?

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Summary

Corporate Social Responsibility (CSR) has been one of the most used terminologies in business texts over the last five decades. Although the importance of behaving in a socially responsible manner has increased over the years, whether this importance reflects the reality on the ground has always been a matter of debate. Studies on the impact of CSR on firm performance have been conducted on a regular basis since the 1960s. However, the findings could never give a concrete answer to the significance of this impact. Nonetheless the increasing level of awareness among various stakeholders of the firms, and the increasing evidence of the negative impact of businesses on the ecological environment has resulted in a constant rise of investment in socially responsible activities from firms. In the beginning these activities were mostly confined within the spheres of firms from the developed nations. But as time progressed, the developing nation firms had started to step in as well. Since almost all of the studies that dealt with the relationship between CSR and firm performance focused on the developed or emerging nations, I aimed to find out whether such a relationship existed in a developing nation context. Based on the stakeholder theory and the institutional theory, I hypothesized that a positive relationship exists between socially responsible behavior and firm performance in a developing nation. My study on eighty eight Bangladeshi publicly listed companies showed that despite a significant increase in overall spending and number of activities geared towards socially responsible behavior, the impact was not significant. Although my hypothesis failed to find significant support, I did find a positive direction in this relationship. It was also encouraging to see that companies in this developing nation were taking the issue of CSR seriously as indicated by the overall increase in the average CSR score for the companies included for this study. An increased level of awareness among the consumers in developing nations and more self-promotion by the companies who are engaging in socially responsible activities might improve the likelihood of finding a significant impact in future. Also future studies may find more robust results if the time period (in this study, an eight year period was used) and number of companies is increased in those studies.

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Introduction

Corporate social responsibility, a largely debated topic since the 1960s (Cochran & Wood, 1984), has become an issue of significant concern in the past couple of decades (Campbell, 2007). With time there has been a consistent increase in the importance of this issue in corporate decision making which has made it a very important topic for research in the business literature (McGuire *et al.*, 1988). In the recent years, the economic recession in the United States of America (USA), and the potential catastrophic impact of climate change have reignited the debate on whether there is a need for companies behaving in a socially responsible manner. As defined by McWilliams and Siegel (2001), corporate social responsibilities are actions that are geared towards providing social good which is beyond the interest of the firm, and which is not mandatory under the existing law. The two characteristics that differentiate corporate social responsibility from other corporate investments are its orientation towards social welfare and stakeholder relationship (Barnett, 2007). According to Barnett (2007), only when there is coexistence of these two factors in a firm's action, it can be called corporate social responsibility. Such acts lead to development of trust and improvement of relationships with the stakeholders of the firm. Some examples of act of corporate social responsibility are sponsoring charitable efforts such as free health care for the poor, engaging in works which develops the standard of living for the community, providing scholarship to needy students for higher studies, engaging in social awareness building on issues such as population control, proper waste management etc. There are no specific groups that need to be targeted by the firms who engage in socially responsible behavior. In general, the nature of the activities will determine which group(s) of the society would be the direct beneficiary.

If the stakeholders of the firm sense that there is an increase in the social responsibilities undertaken by the firm, there is a possibility that it would enhance the perceived image of the organization and allow it to reduce some of its costs, e.g. gaining easier and cheaper access to sources of capital (McGuire *et al.*, 1988). The image enhancement process for socially responsible firms is also bolstered by the fact that the level of social performance often indicates that the firm is endowed with superior talent (Alexander & Bucholtz, 1978). Considering all these benefits that socially responsible activities might bring, it is not surprising that some scholars (e.g. Barnett, 2007) suggested that it may not be a bad idea to look at corporate social responsibility as an investment for profitable return in future. However, as mentioned before, there is an ongoing debate on whether these benefits exceed the cost of acting in a socially responsible manner and whether being socially responsible actually has a positive impact on shareholder wealth. One of the key reasons behind the criticism against engaging in socially responsible activities by firms is the sacrifice that a firm's shareholders need to make while managers engage in such activities. These activities can prove costly and administratively burdensome for firms (Barnett & Salomon, 2006), and there is always the concern that investing too much in socially responsible activities would lead to a decline in a firm's competitive position in the industry. So it is not unusual that firms are often hesitant about whether or not to engage in socially responsible activities. However, despite these concerns, the examples of firms engaging in socially responsible activities are plenty. In addition to the firms’ expectation of a better financial performance due to enhanced image, the appeasement of different pressure groups and inclination to go with the social trend also plays a very important role in this decision. The two most important pressure groups are the primary stakeholders (e.g. employees and customers), and the secondary stakeholders (e.g. activists and local communities) of the firms (Waddock *et al.*, 2002).

Although there has been numerous works (e.g. McGuire *et al.*, 1988; McWilliams & Siegel, 2001; Barnett & Salomon, 2006) that tried to explain the relationship between a firms corporate social performance and corporate financial performance, these studies in general have certain lacking. First, most of the empirical studies that were conducted did not care to control for factors (e.g. R&D intensity) that may influence a firm’s financial performance. Second, majority of these studies did not attempt to build theories or extend a theory. Rather, they were just focused on obtaining an empirical solution. Third, majority of the recent studies came out with propositions or models but did not make an attempt to develop testable hypotheses to find empirical support for the arguments put forward by the authors. In this study, I aim to improve on these shortcomings. Here I present a testable hypotheses grounded in theory and provide a methodological framework that will use recent data on corporate social responsibility and will try to pinpoint the role corporate social responsibility plays on firm performance. So far, there has hardly been any study that looked at the link between level of corporate social responsibility and firm performance in the developing nations. However, with the advent of information technology and raising awareness among the stakeholders in these nations, slowly but surely corporate social responsibility is gaining more and more importance. This is not unnatural as the number of educated people in these nations is on the rise, and in turn, the level of social awareness is also on the rise. In Bangladesh, my chosen country for conducting this study, there are more than 40 million people who have completed the SSC degree (this degree is conferred when a student successfully passes her/his exams for the 10^{th} grade). As it stands, the climate change is likely to have the most significant impact on the developing nations. The media in those countries are constantly reminding the populace of what might happen if we don't curtail carbon emissions and other related activities in due time. This is also spreading the realization that everyone, which also include firms, need to act in a socially responsible manner.

For my study, I use institutional theory and stakeholder theory to explain the logics behind my argument. The specific research question that I try to answer in my study is -

Research Question: Does higher level of corporate social performance lead to an increased profitability for firms in a developing nation?

Literature Review

The research in corporate social responsibility dates back to the 1960s and over the last few decades there has been a continuous debate on the usefulness of firms' engaging in socially responsible activities. The major focus has generally been on whether corporate social responsibility leads to enhanced firm performance or not. While doing so the researchers used various means to measure the level of corporate social responsibility of the firms. These included surveys (e.g. Aupperle et al., 1985), content analysis (e.g. Abbot & Monsen, 1979), reputation index (e.g. Cochran & Wood, 1984), and even pollution index (Folger & Nutt, 1975). The early days of research saw these various not so reliable indexes being used as there was always a lack of reliable source of information. However, recent works conduced by scholars often used state of the art databases such as the one used by Scholtens (2008).

The results found so far have largely been mixed. In one of the earliest studies, Cochran and Wood (1984) found some evidence that corporate social responsibility leads to financial profitability. However, Aupperle et al. (1985) failed to find any relationship between a firm's level of social responsibility and profitability. McGuire et al. (1988) found something very different. Their study based on interviews conducted by the Fortune magazine found that a firm's prior performance is more related to its level of corporate social responsibility than its subsequent performance. In a recent study, Scholtens (2008) tried to look at this impact more explicitly as he tried to find out whether financial performance precedes social performance or social performance precedes financial performance. Using 289 firms from the US over a period of 14 years (1991-2004), he found that financial performance indeed precedes social performance, not the other way round. These findings are in line with the study by McGuire et al. (1988). The important contribution was the use of more recent and reliable data, and the use of more sophisticated analysis techniques. Hence, whether corporate social performance influences firm performance or firm performance influence corporate social performance is still a matter of debate. It is thus very natural that the studies conducted so far failed to show any concrete support for the positive influence of corporate social activities on the financial performance of the firm.

McWilliams and Siegel (2000) cast a doubt on the earlier findings that showed a positive relationship between corporate social responsibility and firm performance by arguing that those studies did not control for R&D intensity of the firm which might have resulted in an upward bias on the influence of corporate social responsibility on firm performance. Their study found support for this argument as when controlled for R&D intensity, corporate social performance (their measure of corporate social responsibility) failed to influence firm performance significantly. This is a clear indication that there is a serious need to address the lack of controls used by previous researches. One reason for such approach might have been the unavailability of required data. However, the phenomenal improvement in information technology has ensured that access to reliable and useful data is much easier these days and scholars should utilize this opportunity to improve on the studies conducted in late 70s or mid 80s.

Although most of the work on corporate social responsibility did not give enough attention to theory building, recent studies have tried to address this issue by providing models and frameworks. But majority of these studies ended with propositions and did not use any empirical tests to prove the arguments put forward. In one such study, McWilliams and Siegel (2001) argued that consumer demand conditions and market supply conditions together will determine the level of corporate social responsibility. They further argued that looking at these conditions; it is possible to find out what is the optimal level of expenditure for a firm in corporate social responsibility related activities. Barnett (2007) took a very different approach as he did not try to find out whether corporate social responsibility leads to positive or negative financial outcomes. He argued that the researches conducted in the past have failed to reach a conclusion on whether corporate social responsibility is beneficial for the firm or not. So he suggested that it might be wise to look at why this heterogeneity in the findings exists rather than looking for a concrete answer. He introduced a construct which he termed as stakeholder influence capacity (SIC) and defined it as "the ability of a firm to identify, act on, and profit" from engagement in corporate social responsibility. This was the main contribution of this study. While developing the construct, he used the concept of absorptive capacity developed by Cohen and Levinthal (1990) and argued that a firm's ability to exploit its socially responsible activities will depend on its past unique experience in stakeholder relationship.

In another study, Campbell (2007) argued that there was a need to look the other way round, i.e. not at the impact of corporate social responsibility on firm performance but rather under what conditions firms would behave in a socially responsible manner. The major assumption in his study was that firms do not benefit from engaging in socially responsible behavior, they engage in such behaviors only because they are under pressure from their institutional environment. He came out with several propositions where he argued that the financial health of the firm and the overall economic condition will significantly influence a firm's proclivity to engage in socially responsible behavior. He further argued that this relationship will be mediated by different institutional factors (e.g. public and private regulation, existence of organizations that monitor the corporate behavior of the firm etc.).

While these studies have significantly increased our understanding of the relationship between corporate social performance and corporate financial performance, there is still need to move these works forward by adding empirical analysis to the existing work and strengthen the claims made by these researchers. There have been some recent studies that used more reliable data and sophisticated techniques to check the relationship between firm performance and corporate social responsibility. In a study conducted on 61 SRI (Socially responsible investing) funds, Barnett and Salomon (2006) found that the relationship between social responsibility and financial performance is neither positive nor negative, rather it is curvilinear. This study found that funds engaging in low and high level of social responsibility enjoy strong financial performance and those with moderate level of socially responsible activities find themselves in a position where there financial performance is significantly lower compared to those mentioned above. Since these funds used different screening criteria to choose where to invest, the authors also looked at some important screening methods that are applied and found that screening on the basis of community relations might be a more beneficial option compared to other criteria such as environment friendliness or good labor relations.

In another study, Brammer and Millington (2008) decided to look specifically into one aspect of corporate social responsibility and its impact on the financial performance of the firm. Their major contribution was the use of a two-stage empirical approach. The specific element that they looked at was corporate philanthropic donations. Using the annual report of 537 sample firms that were listed in the London stock exchange in 1999, this study covered a period of ten years (1990-1999). They found results that were quite similar to that of Barnett and Salomon (2006) as the analysis revealed that firms with unusually low and unusually high level of corporate social performance had better financial performance.

As can be seen from the past literature, there has been a dearth of research that looked to build on the existing theories. The earlier studies were plagued by problems due to unreliable data, improper methodology, and omitted variable bias. The role of CSR for firms operating in developing nations has largely been ignored. There is opportunity to use reliable data now as there are more accepted sources of data on socially responsible activities. In addition, companies in the developing economy nations are becoming more interested in engaging in such activities due to the increasing awareness amongst the local populace on the impact of company activities on climate change and other harmful effect on the environment. In this study, I want to take this opportunity and make some contribution to the existing literature on corporate social responsibility.

I chose Bangladesh as my setting for study for a various number of reasons. Firstly, it is estimated that of the total population that will be affected by the outcome of the climate change, 15 percent live in this country. Secondly, this is one of the fastest developing nations (a GDP growth rate of 6-7% each year) and firms operating here are becoming conscious about their CSR activities (*According to the calculations that I made during this analysis, the average CSR score in year 2000 was 3.72 compared to that of 4.82 in year 2007*). Thirdly, unlike many other developing nations, this country is led by a democratic form of government and people's right to speak and choose what they want is not curtailed by any means. It has a very strong media presence and engaging in social activities is likely to draw a good amount of attention from the media. In addition, the country has a very vibrant capital market and reliable archival data from a significant number of companies is available.

Hypothesis Development

Carroll (1979) divided activities related to corporate social responsibilities broadly into four components – economic, legal, ethical, and discretionary. For this study I look closely at the ethical and the discretionary component. As defined by Carroll (1979), ethical responsibilities of firms reflect the norms, values, and unwritten codes that they derive implicitly from the society; while the discretionary component looks at activities that are philanthropic in nature. The other two components, economic (remaining profitable) and legal (following the law), is compulsory for any business to survive and operate, and hence I do not consider them for this study.

As the outfall of the recent global economic crisis suggests, the lack of responsibility from firms can have significant impact on the society in the form of job cuts, lower standard of living, and enhanced uncertainty about the future. As a result, whether a firm is acting responsibly has become a focal point of discussion in recent times. It is not surprising that a portion of the various stakeholders of the firm would like to see the firm behave in a responsible manner. Donaldson and Preston (1995) argued that one of the dimensions of stakeholder theory is that it is instrumental, i.e. by observing the stakeholder management practices; we may find a connection between those practices and ultimate firm performance. In their work they extended the conventional input-output model to a stakeholder model by incorporating additional parties who might have an influence on corporate decision making. One of these additional parties was the communities in which the organization works. Hence, how the firms perform their responsibility to communities may have some significance in the likelihood of them performing well, which during difficult periods, might prove to be essential for them to survive. More importantly successfully performing their responsibility to stakeholder groups such as the community and the employees of the firm is likely to enhance the legitimacy of the firm in the perception of the other stakeholders such as political groups, government, and most importantly the customers.

One important question that may arise here is whether there will be conflict of interest between the various stakeholder groups and what would be the net effect of that on the decision to engage in socially responsible activities by the firm. If we look carefully at the stakeholder model as proposed by Donaldson and Preston (1995); other than the investors, no other group is likely to have any serious concern about the firm engaging in socially responsible activities. Interestingly enough some socially responsible activities (e.g. not providing top executives with questionable amount of salaries) are actually geared towards helping the investors. Supporting this notion, Jones (1995) argued that firms with disproportionately high levels of top executive salaries will perform worse than firms that do not adopt such a policy. Hence, it can be safely said that not all socially responsible activities will go against the investors. Amongst the other stakeholders, the only time when customers and suppliers might feel unhappy with the socially responsible activities would be when the additional cost is passed on to them. However, if the organization treats the expenditure in socially responsible activities as long term investments to achieve better protection during difficult conditions, then it is more than likely that they will not engage in activities that would transfer some of the costs associated with socially responsible activities to these two groups of stakeholders. Also if articulated properly such acts might attract additional customers and allow the firms to remain profitable even when the customers know that they are paying a premium price (A very good example would be Body Shop, the second largest cosmetics chain in the world. This company has more than 2,000 shops in over 60 countries and portrays itself as one of the leading business organizations which is committed to environment and animal protection; as well as community development activities).

Engaging in CSR activities would also help the firm gain organizational legitimacy. Suchman (1995), synthesizing past works on organizational legitimacy, has defined legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. So it is essentially something that emanates from the society. It is not unusual since firms are embedded in the social environment where they operate (Granovetter, 1985), and the cues that are provided by the society is the key component when a firm tries to establish itself as a proper entity. This is in line with the view of Suchman (1995) who argued that legitimacy and institutionalization are virtually synonymous and both phenomena ensure that the existence of an organization is seen as natural and meaningful.

As argued in the institutional theory (Meyer & Rowan, 1977), organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work that are institutionalized in the society and those that follow this path enhances their possibility of survival. By incorporating such practices, organizations improve the possibility of finding themselves within what might be perceived as the zone of legitimacy by the audience. In the case of the business firm, this audience includes all the parties (generally termed as stakeholders) that have an interest in the activities of the firm. Considering firms that reside within the zone of legitimacy are likely to get more attention and higher level of approval from the audience (Zuckerman, 1999), it is quite probable that a firm can enhance the possibility of its survival by operating within the zone of legitimacy. As suggested by Waddock *et al.* (2002) in their work on total responsibility management, there has been significant increase in the appearance of rankings and certifications (e.g. ISO 14000 and ISO 14001) in the business press that reflect which companies are engaging in activities that can be considered to be in line with globally accepted norms and standards. Also recent years have seen a sharp rise in the number of different social indexes that are aimed at identifying the level of social commitment of the firms. All these indicate that acting socially is becoming more and more important for getting legitimacy in the firm's social environment. This is similar to the notion proposed by Zuckerman (1999) where he argued that a product's degree of legitimacy in its network is often linked to the review it gets from the critiques. If we consider the social indexes as a reflection of the reviews by experts on the company's ability and willingness to perform social acts, then a higher position in these indexes is likely to enhance the legitimacy, and subsequently the probability of better performance for the firms. Thus I argue that firms that engage more in socially responsible activities are likely to show a better performance than those that are less inclined towards such actions.

Hypothesis: Corporate social performance is positively associated with firm performance.

Methodology

Data collection

For this study, I developed a CSR scorecard to measure the level of corporate social performance of the firms. In preparing this scorecard, I took help from the KLDStats Research, one of the leading research organizations in social responsibility index creation. I analyzed the indicators that they use and customized them keeping in mind the context of a developing nation such as

Bangladesh. The scorecard that I developed had broadly six sections - responsibility towards environment, responsibility towards the society, roles in promoting diversity, employee welfare, quality control and innovation, and transparency in reporting the activities of the firm. Under each of these sections, there were some positive attributes and there were some negative attributes. If a firm displayed a positive attribute, it was assigned 1 point for that particular attribute. On the other hand, for negative attributes 1 point was deducted. The final score was the sum of all the points. In assigning the points, I analyzed annual reports, various business news sources of Bangladesh, and in some cases made direct communication with members of the respective organizations. The companies used in this study are all listed under the Dhaka Stock Exchange. To ensure the continuity and reliability of the data, only companies that are not listed under Category Z (*This is a list provided by the Security and Exchange Commission of Bangladesh and includes companies that do not hold regular annual general meetings and provide irregular dividends to their shareholders*) were considered. In total I had 88 companies for this study and I divided the companies in 11 sectors. The time period of the study was from year 2001 to year 2008. However, since a lagged CSR score was used as the independent variable, I also had to go through the information of year 2000. Currently more than 200 companies are listed in the Dhaka Stock Exchange. Of these, almost half got listed in the recent past (i.e. after 2001). Hence, I could not include them in my analysis. I also had to omit some firms as the data were not available for all the years. In collecting the annual reports, I took help from the library of Dhaka Stock Exchange. I also collected annual reports from various book shops around the stock exchange area as the library did not have all the reports available. In total, I analyzed 792 annual reports (88 each from year 2000 to year 2008) for data collection and formulation of the social responsibility score.

Dependent Variable

Firm Performance: The performance of the firm was measured through the return on assets (ROA) variable. The ROA was calculated for each of the year under the study period. ROA is a popular and widely accepted method of determining firm performance in strategy literature.

Independent variable

Corporate social performance: The CSR index derived from the scorecard was used to measure this variable. Since the social performance in a certain year is likely to have its impact on the subsequent year, a one year lag was used for this variable.

Control variables

Firm experience: As more experienced firms may have higher likelihood of survival during difficult economic conditions (Hannan & Freeman, 1989), they might prove to be more seasoned and tough players. This is likely to impact the level of performance of these firms. Hence, I used firm experience as a control variable. This variable was measured by the number of years the firm was in operation at the beginning of each accounting period. A log value of number of years in operation was used. This was done as the incremental value addition due to more experience is generally diminishing in nature.

Firm Size: Since firms with larger size may have better clout and control in its external environment due to the availability of additional resources, I decided to control for this factor. The size of the firm was measured by the number of employees in the firm. This is the conventional way of measuring the size.

Industry effect: Different industries will react differently to different economic conditions since an event deemed as positive in one industry might prove negative in another one. As a result, firms in one industry may show better result in general compared to firms in other industries under the same economic condition. Considering the companies in my dataset represented a very wide variety of firms, it was necessary to control for this factor. I controlled this effect by using industry dummies. As I divided the companies in 11 broad categories, 10 industry dummies were used for this purpose.

Debt exposure: A high level of debt exposure increases a firm's riskiness from the lenders' perspective. As a result, the lenders generally seek higher interest rate in such situations. In addition, the lenders often create barriers for firms to go for high risk-high return projects to protect their own interest. The combined effect of higher cost of capital and lack of flexibility in pursuing good business opportunities might be reflected in the overall performance of the firm. This effect was taken care of by using debt to equity ratio as a control variable.

Year of Operation: Considering the global interconnectedness of today's businesses, overall economic condition of a certain year generally has an impact on the profitability of the firm. For example, in Bangladesh many export oriented companies suffered as the post 9/11 US economy was very unstable (*USA and EU are two of the main importers of Bangladeshi goods*). We are observing a similar, although not equally severe, situation due to the recent economic crisis in the US, and the expected crisis which might unfold in EU countries. Keeping this in mind, I used year dummies so that such impacts are accounted for.

<u>Estimation method</u>

For testing the hypotheses, I used a longitudinal panel data analysis.

Findings and Analysis

<u>CSR across the industries</u>

In my analysis, I had a total of 88 firms which I divided into 11 sectors. The dominant industries were banking, insurance, Pharmaceuticals, RMG & Textiles, and engineering. A breakdown of the industries based on the number of firms considered for this study is shown below –

Table 1: Distribution of firms

Industry	Number of Firms
Pharmaceuticals	9
RMG & Textiles	10
Leather	3
Non-banking Financial Institutions (NBFI)	3
Insurance	14
Fuel and Power	4
Food & Allied	7
Engineering	12
Cement and Allied	5
Banking	15
Miscellaneous	6
Total	**88**

As can be seen from the above table, six of the companies were categorized under miscellaneous. These were companies which did not belong to any of the other ten specific sectors. Another attribute of these companies was that all of them were the sole representative from their industry. In the next few pages I will briefly elaborate on the descriptive findings from these industries.

The Pharmaceutical industry: There were nine companies from this industry. The average CSR score for these companies was 5.86, which was significantly higher than the overall average of 4.19. However, the progress of these firms in their commitment towards social performance over the years was rather slow. One reason for this might be that being the producer of medicines, they had to maintain a significant level of concern for the welfare of consumers and the environment when compared to firms in other sectors. Unlike most other firms in this study, the initial CSR score for these firms were pretty high. The average CSR score in 2000 for these firms was 5.56 compared to the average of 3.51 that was displayed by the rest of the industries. Hence, the improvement necessary was much less for these firms and it is not surprising that the subsequent progress in social commitment was very slow for these firms.

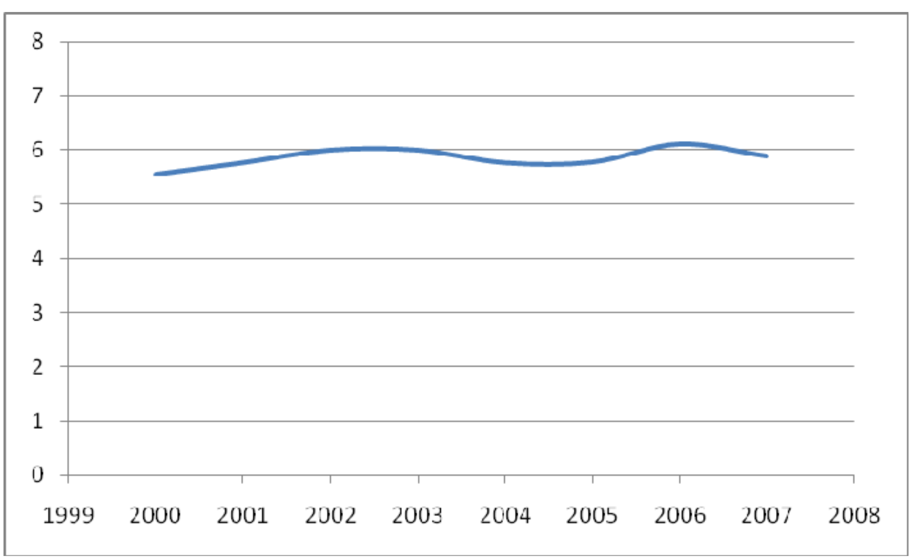

Figure 1: Average CSR score in Pharmaceuticals industry

RMG & Textiles: My dataset included 10 firms from this sector. The average CSR score for these companies was strikingly low. It was only 2.09. This is an alarming finding as majority of the exports in Bangladesh comes from this sector. However, this was not totally unexpected considering the consistent levels of labor unrest for better pay and facilities from the workers of these industries. A recent study revealed *(The Daily Prothom-Alo, 22 July 2010)* that the workers in this sector are the lowest paid compared to the payment of the rest of the world with the current minimum salary staying at just around USD 25 per month. As can be seen from the following diagram, very little changes had come in this sector as far as performing social activities is concerned over the past few years.

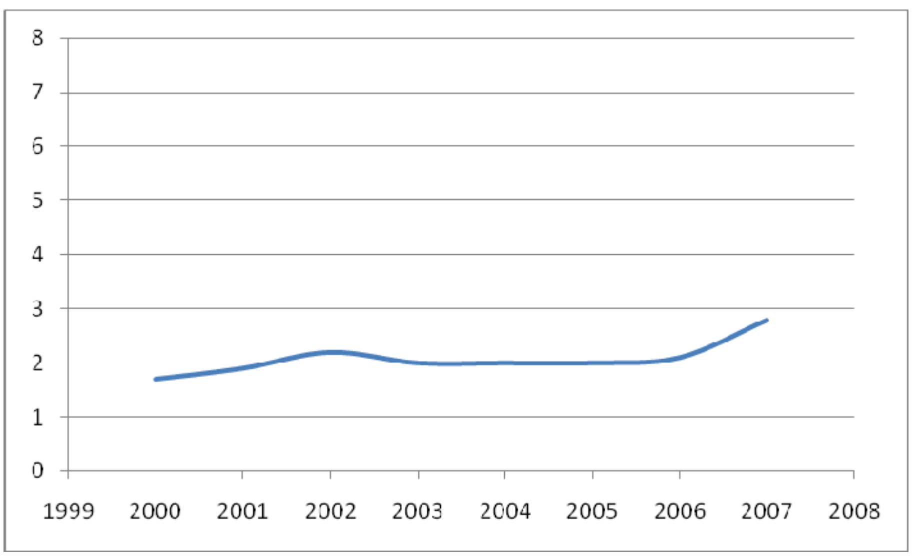

Figure 2: Average CSR score in RMG & Textile industry

Leather Industry and NBFIs: Considering the number of companies from these two sectors in my sample, it is not possible to produce any concrete findings in terms of trends of CSR. However, NBFIs with an average CSR score of 5.12 did a commendable job while the leather companies failed to create any impression with an average CSR score of 3.46. In my opinion, the poor performance of the later industry is largely attributable to their failure in tackling various environmental issues that are linked with tannery business.

Insurance Industry: Considering the high level of returns earned by the companies in this industry, their contribution for social welfare was less than what was expected. The average CSR score for these companies was 4.09 which failed to cross the overall average score. The analysis indicated that in addition to being poor, the social performance also remained largely stationary over the years. While going through the statements of the chairmen and directors of the boards of these companies, I observed a very traditional thinking pattern. This might have reflected in this "maintaining the status quo" approach.

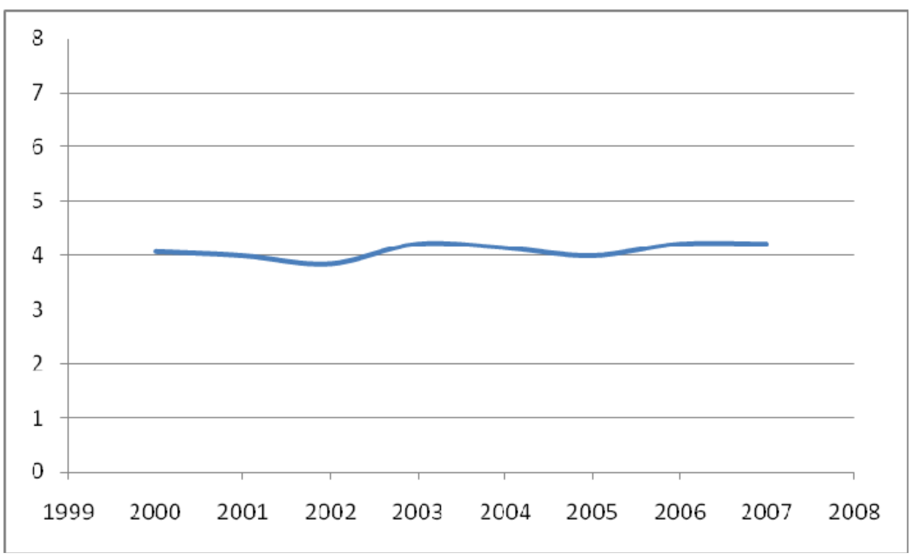

Figure 3: Average CSR score in Insurance industry

Fuel and Power: Of the four companies in my sample, three were from the government sector and only one from the private sector. The private sector firm easily outscored the three government firms with an average score of 7.88. Considering the level of inefficiency and corruption that is generally observed in developing nations, it was hardly surprising that the government institutes only averaged 1.79, a very low score when compared to the overall average.

Food and allied: This was another industry which performed badly in terms of the social performance. There were seven companies from this sector and the average CSR score was 3.07, much below the overall average. However, the findings suggest an upward trend which is encouraging.

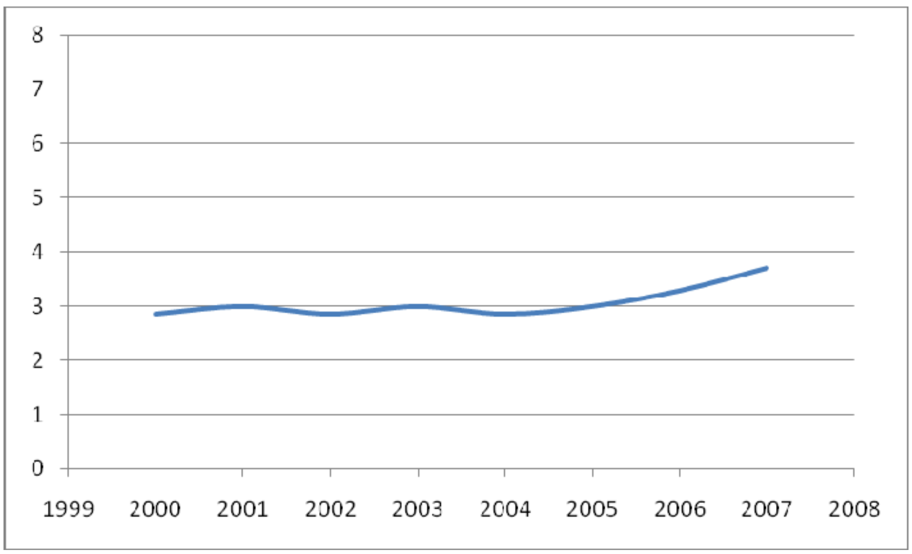

Figure 4: Average CSR score in Food and Allied industry

Engineering: The engineering sector had twelve firms and the average CSR over the years was below par at 3.50. Many of the firms in this category were mid-sized and were not conscious enough to take environmental measures needed to be taken to avoid the hazards that are related to these kinds of businesses. However, the findings suggest that the companies have started to take these concerns seriously in the recent years.

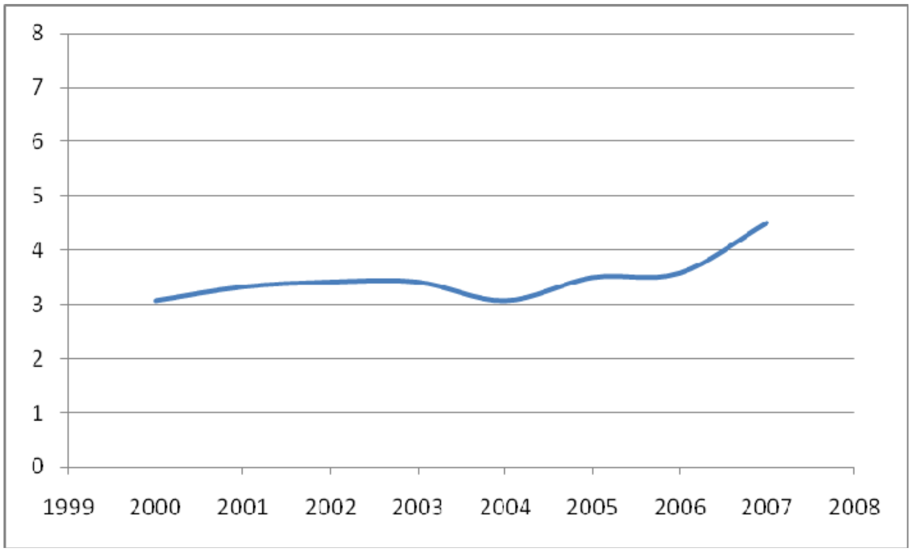

Figure 5: Average CSR score in Engineering industry

Cement and allied: This industry was represented by five firms. With an above average CSR score when compared to the par, the companies did a decent job in performing social activities. It was encouraging to see this performance as the environmental hazards caused by the residual elements (e.g. fly ash) in the production process of cements is notably high. Hence, it is expected that companies operating in this business will take environmental protection and worker safety seriously.

Banking: There were fifteen companies in this sector. The social performance of this sector was outstanding with an overall average of 6.20. Even better was the way this sector progressed in doing more and more for the society over the years. However, it should be noted that this sector was by far the most affluent sector compared to the rest. The average asset size for this sector in 2008 was Taka 74,019 million, and average employee strength was 2,287. In the same year, the rest of the 73 firms had an average asset size of only Taka 2,844 million with average employee strength of 1,030. So these firms had the financial might behind them. But the willingness to exercise this might for the betterment of the society has to be given its due respect.

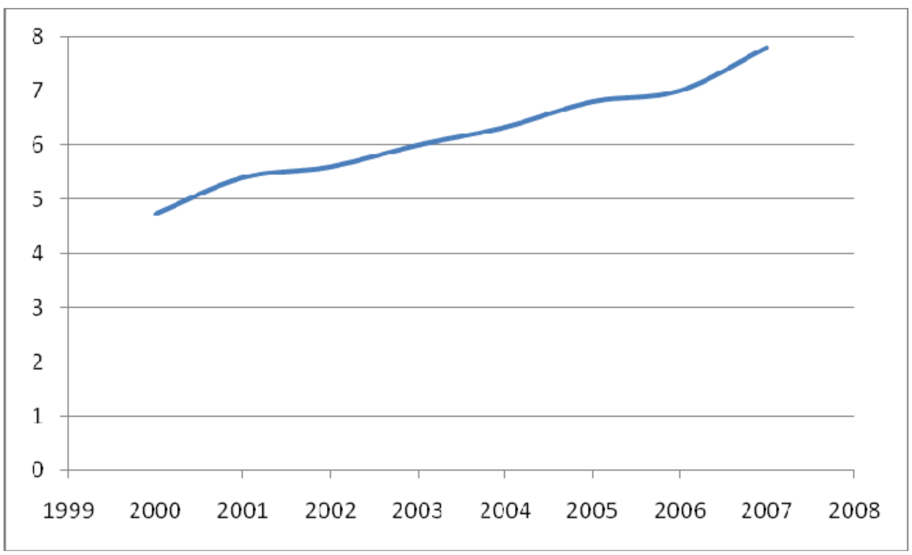

Figure 6: Average CSR score in Banking industry

Panel Data Analysis

For the econometric analysis of the data, I used a longitudinal panel data analysis. In total I had 648 observations after taking care of the missing data.

The companies in my data set are divided into two categories “A” and “B”. The Dhaka stock exchange decides which firm will fall under which category. The “A” category firms are the higher rated ones compared to the “B” category. In total, I had 75 firms from “A” category and 13 firms from “B” category. Initially, I used all the firms for my analysis. Before running the regression I created a correlation matrix (please see appendix) to check whether any of the independent variables were strongly correlated with each other. The findings suggested that no such correlation existed.

In the regression, I added the independent variable and the control variables without the dummies in model 1. In model 2, I added industry dummies, and in model 3, I added year dummies. The regression result (See Table 2) showed that there was a positive affiliation between CSR score and firm performance in all three models. But none of these finding could pass the significance test. As a result my hypothesis was not supported. However, there was strong support for two of the control variables. As was revealed, debt to equity ratio had a negative impact on firm performance as was predicted. The number of employees had a positive impact on firm performance suggesting that size did matter for the companies listed in the Dhaka Stock Exchange. The impact of this variable increased with the addition of the dummy variables. Although a few of the industry dummies showed strong positive affiliation with firm performance, there was no such finding for the year dummies.

Table 2: Regression Results[1]

	Model 1	Model 2	Model 3[2]
Variables	Coefficient	Standard Error	
Intercept	0.0342	0.0123	0.0120
	(0.018)	*(0.0200)*	*(0.0247)*
CSR Score	0.0005	0.0007	0.0005
	(0.0011)	*(0.0011)*	*(0.0012)*
Company size	0.000004*	0.000006**	0.000006**
	(0.000002)	*(0.000003)*	*(0.000003)*
Debt exposure	-0.0009***	-0.0006**	-0.0006**
	(0.0003)	*(0.0003)*	*(0.0003)*
Firm experience	0.0080	-0.0050	-0.0001
	(0.0136)	*(0.0149)*	*(0.2011)*
Pharmaceuticals Industry		0.0700***	0.0674***
		(0.0191)	*(0.0200)*
RMG & Textile		0.0143	0.0122
		(0.0194)	*(0.0200)*
Leather		0.0457*	0.0435
		(0.0273)	*(0.0278)*
NBFI		0.0204	0.0192
		(0.0.0268)	*(0.0271)*
Insurance Industry		0.0640***	0.0626***
		(0.0173)	*(0.0174)*
Fuel and Power		0.0300	0.0269
		(0.0251)	*(0.0256)*
Food and Allied		0.0352	0.0331
		(0.0214)	*(0.0216)*
Engineering		0.0357*	0.0332*
		(0.0185)	*(0.0188)*
Cement and Allied		0.0515**	0.0504*
		(0.0217)	*(0.0230)*
Misc.		0.0254	0.0230
		(0.0217)	*(0.0220)*
Chi-square	16.23***	40.54***	45.65***
R-square	0.1275	0.2435	0.2480

*** $p<0.01$; ** $p<0.05$; * $p<0.1$ (two tailed test)

Positive signs indicate a positive affiliation with firm performance; negative signs indicate a negative affiliation with firm performance

To check the robustness of my findings I dropped the time dummies and ran the regression again. The result was not different. Then I dropped the B category companies and ran the regression. The result remained largely similar.

[1] The standard error is shown in parentheses.
[2] The year variables are not displayed here due to space constraint.

As has been already discussed, the hypothesis unfortunately did not find enough support from the study. There can be a number of reasons behind that. Although some past studies found support for better CSR leading to better firm performance, they were largely conducted in either developed or emerging nation. Hence the unique features that are brought in by a developing nation setting did not interfere in those studies. As can be seen from the descriptive analysis, most of the industries showed a general apathy towards performing social activities. Also if we look at the trend, other than one or two cases, it has remained largely very slow moving. The corporate sector responds to the needs and demands of the consumers. Hence, it might be plausible to assume that the interest level from the local people was not very high. The economic condition of Bangladesh has a key role to play in it. Also the nature of the business environment is not particularly supportive of such activities. In general, firms that have done well by being socially responsible often could charge some premium; no matter how little it is, from their customers. In a poor economy like Bangladesh, this offer is lot less lucrative for the consumers. People would appreciate socially responsible behavior but still the critical mass has not been created who would go as far as paying extra for obtaining service or products from a socially responsible company.

Also the consumers are often faced with little flexibility in their choice. The number of big firms capable enough to engage in substantial CSR activities is relatively few and in many cases the industry has remained oligopolistic in nature (*as is displayed by the rather small number of firms under certain* *industry category)*. A lack of choice often forces the customers to buy from whoever is providing the product or service. As long as this scenario remains in place, flourishing of CSR activities from the part of the organizations would remain as a rare phenomenon. One other problem was the lack of interest amongst the companies in reporting their CSR activities. For example, NBL, a leading private sector bank is running a school in the capital city since 1989. However, it is only in 2005 that they felt the need to make people aware that it is actually funding the school substantially from the beginning of its journey. I believe the concept of telling the world that you are doing things to benefit the society is still new for many of the owners of the company and they are still hesitant to let people know about the good deeds for the society.

Finally, peer pressure from other companies was also non-existent during this period. If we look at the data closely, we see that most of the companies within one industry followed a general pattern. It was very rare to find a star company that was leaps and bounds ahead of its competitors. Saying all that, it has to be said that the companies in a developing nation such as Bangladesh have progressed quite a lot in the last decade when we consider the economic crises around the globe and the turbulent socio economic condition of Bangladesh during the first decade of the new millennium. However, this improvement is still far from what is desired and the companies need to be more aggressive not only in conducting CSR activities, but also in promoting these activities through proper channels. At this rudimentary stage of the CSR phenomenon in a developing nation like Bangladesh, the companies need to feel that one of the socially responsible activity is to make people aware that the companies have a duty to the society and the environment; and by performing these duties both the companies and the consumers will be benefited.

Discussion and Conclusion

Although the key objective that I had in my mind was to see whether CSR is positively associated with firm performance or not in a developing nation context, I also wanted to explore the general CSR landscape of my country. The journey through this research has been very insightful and knowledge enhancing. It was unfortunate that I did not find support for my hypothesis, but as mentioned the possibility always existed considering the situation on the ground. I believe if some limitations could be mitigated, it would help a lot in improving this work. First, the sample size can be increased by adding more companies in the future. As mentioned earlier, a lot of companies joined the stock exchange at or after 2002 and 2003. If a time period of 2003 to 2010 is considered by future researchers, I believe the sample size can be increased significantly. Second, future researchers may want to go beyond the listed companies only as it actually limits the potential number of firms for this study by a great extent. However, considering the secretive nature of the privately held companies in Bangladesh, this won't be an easy task. The CSR form can be refined and improved. As we all know, improvement is a continuous process and if we refine the form after every study that we conduct, ultimately we would be able to come out with a very acceptable design for the form. I found from the study that despite many of the companies not taking CSR very seriously until now, there are industries where there have been real changes and the improvement has been continuous. I hope the other companies can learn from it and follow their footsteps.

If a company operates in a developing nation, it comes under a lot of restrictions due to the external environmental turbulences. However, working in a developing nation also means ample opportunities to contribute to the society and fulfill the duties towards the society. The multinational companies generally performed better compared to others in social performance. This is mainly due to their global exposure and years of international expertise. But our companies are learning and they are also engaging in such activities, sometimes at a grand scale, as have been displayed by the banking industry. Considering the inevitable, albeit slow, approach of the firms towards becoming more and more responsible socially; we can hope that we will see the companies reaping good benefits for their good deeds. As I mentioned earlier, one of the key factor is promotion of these activities. This has to be a two-pronged approach. One, make people aware about what good things you are doing as a company. Two, let the common people understand that business entities have certain responsibilities to fulfill and it is the right of the people to ask them to be socially responsible.

To my knowledge, this was one of the very few studies conducted on the firms of developing nations that looked at the impact of CSR performance on the financial performance of the firm. This is just a beginning and many areas of improvement exist. Future researchers can take this opportunity and modify and improve on the current research design to reduce the shortcomings and provide more concrete findings in future.

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Appendix: Correlation matrix

	CSR Score	Employee number	Debt to equity ratio	Experience	Pharm.	RMG & Textile	Leather	NBFI	Insurance	Fuel & Power	Food & Allied	Engineering	Cement & Allied	Misc.
CSR Score	1													
Employee number	0.23	1												
Debt to equity ratio	0.12	0.25	1											
Experience	0.03	0.14	-0.22	1										
Pharm.	0.23	0.07	-0.14	0.35	1									
RMG & Textile	-0.33	0.10	-0.15	-0.02	-0.12	1								
Leather	-0.06	0.17	-0.07	0.10	-0.07	-0.07	1							
NBFI	0.06	-0.15	0.04	-0.12	-0.07	-0.07	-0.04	1						
Insurance	0.02	-0.10	-0.19	-0.17	-0.14	-0.14	-0.08	-0.08	1					
Fuel & Power	-0.09	-0.11	0.01	0.18	-0.08	-0.08	-0.05	-0.05	-0.09	1				
Food & Allied	-0.14	-0.11	0.01	0.02	-0.10	-0.10	-0.06	-0.06	-0.12	-0.07	1			
Engineering	-0.10	-0.18	-0.17	0.15	-0.14	-0.13	-0.08	-0.08	-0.16	-0.09	-0.11	1		
Cement & Allied	0.10	-0.14	-0.14	-0.12	-0.09	-0.08	-0.05	-0.05	-0.10	-0.06	-0.07	-0.10	1	
Misc.	-0.17	-0.03	-0.08	0.11	-0.10	-0.10	-0.06	-0.06	-0.12	-0.07	-0.08	-0.11	-0.07	1